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General Comment

In working with the "316 Audits" over the past year, I noted some general improvements in the guidance that would help clarify things for the auditor, the recipients and DOE personnel. I hope you will accept the attached marked up copy of the General Audit Program as my specific comments.

Applying my background in auditing, I expanded and emphasized the Scope of the audit. I streamlined the Objectives of the audit to the two that are in the regulations, and added some clarifying paragraphs. I wanted to emphasize that the \$500,000 threshold includes expenditures that are accrued, but not yet reimbursed.

Finally, I sought to expand and better distinguish between the examination of the internal control system and the substantive testing of the dollar amounts reported, and the ultimate reporting of those results.

One of the key issues is materiality, where I do not believe that the recipients and their auditors are on the same page (in terms of expectations) as the DOE.

Thank You.

Attachments

For-Profit_Audit_Guidance_(Part I)_Federal Register_0 Comments 1

I. GENERAL AUDIT PROGRAM

A. PURPOSE AND APPLICABILITY

The following General Audit Program provides requirements and guidance for independent audit organizations in conducting program compliance audits of for-profit recipients of federal financial assistance from the Department of Energy (DOE) under Regulation 10 CFR 600.316. The requirements for financial statement audits of for-profit recipients are not provided for under Regulation 10 CFR 600.316, which applies only to program compliance audits. As such, this Audit Program and all compliance supplements (Parts II and III of this guidance) do not apply to financial statement audits. Audits of financial statements are allowable as indirect costs if the recipient normally has financial statement audits. However, DOE is not requiring an audit of financial statements solely to address Regulation 10 CFR 600.316, nor are financial statement audits allowable as direct costs to satisfy the requirements of Regulation 10 CFR 600.316.

Compliance audits as required under Regulation 10 CFR 600.316 and this Audit Program must be conducted in accordance with the requirements and guidance set forth in Statement on Auditing Standards No. 117, *Compliance Audits* (SAS 117) and generally accepted government auditing standards (GAGAS). See section C below for more detail. The audit procedures provided in this Audit Program are the minimum necessary for uniform and consistent audit coverage.

Auditors conducting audits of entities subject to the requirements of Office of Management and Budget (OMB) Circular No. A-133, *Audits of States, Local Governments and Non-Profit Organizations*, should not use this Audit Program and should instead refer to the Circular and the *OMB Circular No. A-133 Compliance Supplement* for requirements and guidance.

B. ACRONYMS AND DEFINITIONS

AICPA - American Institute of Certified Public Accountants

Auditee - Any non-Federal entity (recipient) that expends DOE awards which must be audited under this Audit Program.

Auditor - A public accountant which meets the general standards specified in GAGAS.

Audit Finding - Matters which the auditor is required to report in the schedule of findings and questioned costs in accordance with Section S(a) of this Audit Program.

CFDA - Catalog of Federal Domestic Assistance.

CFDA Number - The number assigned to a Federal program in the CFDA.

Corrective Action - Action taken by the auditee that:

- (1) Corrects identified deficiencies;
- (2) Produces recommended improvements; or
- (3) Demonstrates that audit findings are either invalid or do not warrant auditee action.

DOE – U.S. Department of Energy

DOE Federal Award - DOE financial assistance that non-Federal entities receive directly from DOE. It does not include procurement contracts used to buy goods or services from vendors. (When multiple awards are made to a recipient for projects under the same CFDA number, the term “award” shall NOT refer to the awards in aggregate, and the audit of the awards shall be conducted at the individual award level, NOT at the aggregate CFDA level.) All references to awards throughout this audit guidance are in reference to DOE awards only and are not in reference to awards from other Federal agencies.

Federal Financial Assistance - Under Subpart D of Regulation 10 CFR Part 600 “Administrative Requirements for Grants and Cooperative Agreements with For-Profit Organizations” (also referred to in this document as “the Regulation”), financial assistance is the transfer of money or property to a recipient to accomplish a public purpose of support or stimulation authorized by Federal statute. Financial assistance instruments are grants, cooperative agreements, and subawards. (See Regulation 10 CFR 600.3.) Loans, loan guarantees, contracts with prime recipients and contracts or agreements with DOE labs shall not be considered financial assistance awards for the purpose of this guidance. All references to financial assistance throughout this audit guidance are in reference to DOE financial assistance only and are not in reference to financial assistance from other Federal agencies.

GAAP - Generally Accepted Accounting Principles

GAAS - Generally Accepted Auditing Standards

GAGAS - Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States

GAO - Government Accountability Office

Internal Control Pertaining to the Compliance Requirements for Federal Awards (Internal Control over Federal Awards) - A process (effected by an entity's management and other personnel) designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- (1) Transactions are properly recorded and accounted for to:
 - i. Permit the preparation of reliable financial statements and financial reports;
 - ii. Maintain accountability over assets; and
 - iii. Demonstrate compliance with laws, regulations, and other compliance requirements;
- (2) Transactions are executed in compliance with:
 - i. Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal award; and
 - ii. Any other laws and regulations that are identified in the compliance supplement; and
- (3) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Management Decision - The evaluation by the DOE, as the Federal awarding agency of the audit findings and corrective action plan and the issuance of a written decision as to what corrective action is necessary.

OMB - Office of Management and Budget of the Executive Office of the President

Pass-Through Entity - A non-Federal entity that provides a DOE Federal award to a subrecipient to carry out a Federal program.

Questioned Cost - A cost that is questioned by the auditor because of an audit finding:

- (1) Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds;
- (2) Where the costs, at the time of the audit, are not supported by adequate documentation; or
- (3) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Recipient - The organization, individual, or other entity that receives an award from DOE and is financially accountable for the use of any DOE funds or property provided for the performance of the project, and is legally responsible for carrying out the terms and conditions of the award. (See Regulation 10 CFR 600.3.)

SAS – AICPA Statements on Auditing Standards

Subrecipient - The legal entity to which a subaward is made and which is accountable to the recipient for the use of the funds or property provided. (See Regulation 10 CFR 600.302.)

Vendor - A dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a DOE Federal program. These goods or services may be for an organization's own use or for the use of beneficiaries of the DOE Federal program.

C. BACKGROUND AND SCOPE

[Moved from Section E]

Under Regulation 10 CFR 600.316, a for-profit recipient that expends \$500,000 or more in a year (including any pre-award costs) under DOE Federal awards must have an audit made for that year by an independent auditor (regardless of when the expenditures are presented to DOE for reimbursement). In determining whether the \$500,000 threshold is met, recipients should assess the amount of DOE funds expended under the award and shall not include any cost-sharing amounts. The audit generally should be made a part of the regularly scheduled, annual audit of the recipient's financial statements. As noted in Section A above, however, this Audit Program and all compliance supplements (Parts II and III of this guidance) do not apply to financial statement audits. Audits of financial statements are allowable as indirect costs if the recipient normally has financial statement audits. However, DOE is not requiring an audit of financial statements solely to address Regulation 10 CFR 600.316, nor are financial statement audits allowable as direct costs to satisfy the requirements of Regulation 10 CFR 600.316.

In some cases, it may be more economical not to perform these compliance audits simultaneously with regularly scheduled, annual financial statement audits. In such cases, a recipient may elect to have DOE Federal awards separately audited, unless that option is precluded by award terms and conditions or by Federal laws or regulations applicable to the program(s) under which the awards were made.

Threshold of \$500,000 According to this Guidance:

When a for-profit recipient has multiple DOE awards and one or more of the awards have expenditures of \$500,000 or more, a compliance audit is required for each of the awards with \$500,000 or more in expenditures. The remaining awards do not require, individually or in the aggregate, a compliance audit. Recipients that have total expenditures of \$500,000 or more but that do not have any single award with expenditures of \$500,000 or more are required to have a compliance audit of the awards in the aggregate (i.e., as a cluster of awards). Awards audited as a cluster should share common compliance requirements.

Auditors shall use professional discretion in determining the corporate level at which to perform the audit. For example, if only one segment of a recipient company receives DOE funds, the auditor may perform an audit only of the segment of the company receiving the funds, provided the segment has separate internal controls. (A company “segment” for the purposes of this guidance is defined under Regulation 48 CFR 9904.403-30(4) as one of two or more divisions, product departments, plants, or other subdivisions of an organization reporting directly to a home office, usually identified with responsibility for profit and/or producing a product or service.)

If a parent company passes DOE funds to another entity within the same consolidated corporate structure, the auditor should perform the audit at the consolidated level.

When multiple awards are made to a recipient for projects under the same CFDA number, the term “award” shall NOT refer to the awards in aggregate, and the audit of the awards shall be conducted at the individual award level, NOT at the aggregate CFDA level.

[Deleted as repetitive the old language from Section C]

~~Under Regulation 10 CFR 600.316, a for profit recipient that expends \$500,000 or more in a year under DOE Federal awards must have a compliance audit conducted for that year by an independent auditor. The audit generally should be made a part of the regularly scheduled, annual audit of the recipient’s financial statements. As noted in Section A above, however, this Audit Program and all compliance supplements (Parts II and III of this guidance) do not apply to financial statement audits. Audits of financial statements are allowable as indirect costs if the recipient normally has financial statement audits. However, DOE is not requiring an audit of financial statements solely to address Regulation 10 CFR 600.316, nor are financial statement audits allowable as direct costs to satisfy the requirements of Regulation 10 CFR 600.316.~~

~~In some cases, it may be more economical not to perform these compliance audits simultaneously with regularly scheduled, annual financial statement audits. In such cases, a recipient may elect to have DOE Federal awards separately audited, unless that option is precluded by award terms and conditions or by Federal laws or regulations applicable to the program(s) under which the awards were made.~~

The scope of the audit includes, but is not necessarily limited to:

- (a) Internal control systems –The recipient’s systems of internal controls that could or should apply to the activities and transactions associated with DOE Federal Award expenditures.

- (b) DOE Federal Award expenditures – All items of cost incurred during the audit period that, after application of any applicable federal cost share, are included or should be included in the expenditure value listed on the schedule of DOE Awards. (See Section N, item (e)).
- (c) Receipts and Revenues – All items of receipts and revenues associated with DOE Award assets or activities, including, for example, project income.
- (d) In-Kind – All items of payment in kind associated with a DOE Award.
- (e) Assets and Liabilities – All assets and liabilities associated with or which should be associated with the expenditures included in the schedule of DOE Awards.
- (f) Activities and Non-Accounting Actions – All activities and non-accounting actions taken by the recipient in conjunction with their management of the DOE Award.

D. PERTINENT PUBLICATIONS AND REGULATIONS

1. Pertinent Publications

AICPA Statements on Auditing Standards

GAO Government Auditing Standards (2007 or subsequent revisions)

Chapter 14, *Program-Specific Audits*, of the AICPA Audit Guide *Government Auditing Standards and Circular No. A-133 Audits*

2. Pertinent Regulation

Regulation 10 CFR 600, Subpart D, *Administrative Requirements for Grants and Cooperative Agreements with For-Profit Organizations*

E. AUDIT OBJECTIVES

[New language added]

The objectives of an audit under Regulation 10 CFR 600.316 are to determine and report on whether:

- (1) The recipient has an internal control structure that provides reasonable assurance that it is managing Federal awards in compliance with Federal laws and regulations and the terms and conditions of the awards.
- (2) The recipient has complied with laws, regulations, and award terms that may have a direct and material effect on DOE Federal Awards.

In order to achieve these objectives, the auditor is expected to examine (i.e. understand, evaluate, document and test) the recipient's system of internal controls that affects or could affect transactions, assets and liabilities associated with a Federal award. The work the auditor performs to examine the recipient's internal control system for its other business functions may be relied upon to help meet the objectives of a Regulation 10 CFR 600.316 audit, so long as transactions associated with a Federal award are subject to the same system of internal controls. To the extent that transactions, assets and liabilities under a Federal award are subject to other

internal controls, the auditor should apply its professional judgment to determine any required supplemental examination of these internal controls. In either case, the auditor should consider and conduct supplemental examination of the recipient's internal control system to gather sufficient, competent evidence on which to base an opinion on the first objective above.

The results of the auditor's examination of the recipient's system of internal controls shall affect the work done to accomplish the second objective. The purpose of objective number 2 is to provide comfort and assurance that the recipient is managing the project and reporting project costs in conformity with all legal and regulatory requirements. A direct and material condition is included in the objective to recognize that 100% assurance is not a reasonable expectation. Therefore, the auditor should apply professional judgment in establishing a materiality threshold for this objective. Note that the users of a Regulation 10 CFR 600.316 audit report may have a different view on materiality than the users of the recipient's general financial statements.

[Moved to Section C]

~~Under Regulation 10 CFR 600.316, a for-profit recipient that expends \$500,000 or more in a year (including any pre-award costs) under DOE Federal awards must have an audit made for that year by an independent auditor (regardless of when the expenditures are presented to DOE for reimbursement). In determining whether the \$500,000 threshold is met, recipients should assess the amount of DOE funds expended under the award and shall not include any cost-sharing amounts. The audit generally should be made a part of the regularly scheduled, annual audit of the recipient's financial statements. As noted in Section A above, however, this Audit Program and all compliance supplements (Parts II and III of this guidance) do not apply to financial statement audits. Audits of financial statements are allowable as indirect costs if the recipient normally has financial statement audits. However, DOE is not requiring an audit of financial statements solely to address Regulation 10 CFR 600.316, nor are financial statement audits allowable as direct costs to satisfy the requirements of Regulation 10 CFR 600.316.~~

~~In some cases, it may be more economical not to perform these compliance audits simultaneously with regularly scheduled, annual financial statement audits. In such cases, a recipient may elect to have DOE Federal awards separately audited, unless that option is precluded by award terms and conditions or by Federal laws or regulations applicable to the program(s) under which the awards were made.~~

Threshold of \$500,000 According to this Guidance:

~~When a for-profit recipient has multiple DOE awards and one or more of the awards have expenditures of \$500,000 or more, a compliance audit is required for each of the awards with \$500,000 or more in expenditures. The remaining awards do not require, individually or in the aggregate, a compliance audit. Recipients that have total expenditures of \$500,000 or more but that do not have any single award with expenditures of \$500,000 or more are required to have a compliance audit of the awards in the aggregate (i.e., as a cluster of awards). Awards audited as a cluster should share common compliance requirements.~~

~~Auditors shall use professional discretion in determining the corporate level at which to perform the audit. For example, if only one segment of a recipient company receives DOE funds, the auditor may perform an audit only of the segment of the company receiving the funds, provided~~

~~the segment has separate internal controls. (A company “segment” for the purposes of this guidance is defined under Regulation 48 CFR 9904.403-30(4) as one of two or more divisions, product departments, plants, or other subdivisions of an organization reporting directly to a home office, usually identified with responsibility for profit and/or producing a product or service.)~~

~~If a parent company passes DOE funds to another entity within the same consolidated corporate structure, the auditor should perform the audit at the consolidated level.~~

~~When multiple awards are made to a recipient for projects under the same CFDA number, the term “award” shall NOT refer to the awards in aggregate, and the audit of the awards shall be conducted at the individual award level, NOT at the aggregate CFDA level.~~

F. EFFECTIVE DATE

The requirements and guidance set forth in this Audit Program are effective for all for-profit recipients’ 2011 fiscal years (i.e., for any fiscal year ending in 2011) and thereafter.

G. DUE DATES AND SUBMISSIONS

For recipients, compliance audit submissions are due to DOE within six months of the recipients’ fiscal year-end dates. Recipients must have specific reasons to request any extensions beyond this due date, and they must obtain approval from the appropriate contracting officers. Recipients that have audited financial statements shall submit copies of the audited financial statements along with their compliance audits.

For recipients, the compliance audits must be submitted (along with audited financial statements if audited financial statements are available), to the appropriate DOE Contracting Officer as well as to the DOE Office of the Chief Financial Officer. Submissions to the Office of the Chief Financial Officer should be emailed to: DOE-Audit-Submission@HQ.DOE.GOV.

H. BASIS FOR DETERMINING DOE AWARDS EXPENDED

(a) Determining DOE Federal Awards Expended. The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with grants or cooperative agreements, the disbursement of funds passed through to subrecipients, the receipt of property, the receipt of surplus property, the receipt or use of program income, or any other activity performed in accordance with the terms of the financial assistance award. [Additional language] For entities on an accrual basis of accounting, activities should be counted as expended if the transaction has been recorded on the recipient’s books at or as of the end of the period under examination.

(b) Valuing Non-Cash Assistance. Federal non-cash assistance, such as free rent, food stamps, food commodities, donated property, or donated surplus property, shall be valued at fair market value at the time of receipt or the assessed value provided by the Federal agency (DOE).

I. VENDOR CONSIDERATIONS

Sections C and E above details the audit scope and objectives for recipients. An auditee may be both a recipient and a vendor. Payments received for goods or services provided as a vendor would not be considered DOE Federal awards. The guidance in OMB Circular No. A-133 at Section .210 should be referred to for purposes of determining whether payments constitute a DOE Federal award or a payment for goods and services.

In most cases, the auditee's compliance responsibility for vendors is only to ensure that the procurement, receipt, and payment for goods and services comply with laws, regulations, and the provisions of contracts or grant agreements. Program compliance requirements normally do not pass through to vendors. However, the auditee is responsible for ensuring compliance for vendor transactions which are structured such that the vendor is responsible for program compliance or the vendor's records must be reviewed to determine program compliance.

J. FREQUENCY OF AUDITS

Regulation 10 CFR 600.316(a) requires that any recipient that expends \$500,000 or more in a year under DOE Federal awards must have an audit made for that year.

K. AUDIT COSTS

- (a) Allowable costs. Unless prohibited by law, the cost of compliance audits made in accordance with the provisions of the Regulation and this Audit Program are allowable charges to DOE Federal awards. The charges may be considered a direct cost or an allocated indirect cost, as determined in accordance with the provisions of the Federal Acquisition Regulation (FAR) (48 CFR parts 30 and 31), or other applicable cost principles or regulations. Audits of financial statements are allowable as indirect costs if the recipient normally has financial statement audits. However, DOE is not requiring an audit of financial statements solely to address Regulation 10 CFR 600.316, nor are financial statement audits allowable as direct costs to satisfy the requirements of Regulation 10 CFR 600.316.
- (b) Unallowable costs. In accordance with this guidance, a non-Federal entity should not charge the cost of any compliance audit not conducted in accordance with the Regulation or this Audit Program (or not approved in advance by the cognizant DOE contracting officer) to a DOE Federal award.

L. SANCTIONS

No audit costs may be charged to DOE Federal awards when compliance audits required by Regulation 10 CFR 600.316 have not been performed or have been performed but not in accordance with the Regulation or this guidance. In cases of continued inability or unwillingness to conduct an audit or resolve findings in accordance with the Regulation or this Audit Program, DOE shall take appropriate action using sanctions such as:

- (a) Withholding a percentage of DOE Federal awards until the audit is completed satisfactorily;
- (b) Withholding or disallowing overhead costs;
- (c) Suspending DOE Federal awards until the audit is conducted; or
- (d) Terminating the DOE Federal award.

M. PROGRAM-SPECIFIC COMPLIANCE REQUIREMENTS

If a specific program has compliance requirements that are distinct from the general compliance requirements included in Part II (*General Compliance Supplement*) of this guidance, auditors should follow the guidance in the program-specific compliance supplement available in Part III (*Program-Specific Compliance Supplements*) of this guidance. Each program-specific compliance supplement includes information only on the compliance requirements that are distinct from the requirements in Part II. As such, auditors should follow the guidance included in Part II of this guidance unless program-specific compliance requirements for a particular program are available in Part III.

Included in Part II of this guidance is a matrix that outlines the compliance requirements, including special tests and provisions, that are applicable to programs performed under DOE CFDA numbers. For programs performed under each CFDA number, auditors should audit applicable compliance requirements that are direct and material to the programs.

N. AUDITEE RESPONSIBILITIES

The auditee should:

- (a) Identify, in its accounts, all DOE awards received and expended and the DOE programs under which they were received. DOE program and award identification should include, as applicable, the CFDA title and number, award number and year.
- (b) ~~Maintain~~ Operate an effective system of internal controls over DOE awards to that provides reasonable assurance that the auditee is managing DOE awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its DOE awards.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its DOE awards.
- (d) Prepare appropriate financial statements.
- (e) Prepare a schedule of DOE awards (arranged by CFDA number) that includes the CFDA number, the DOE award number, and expenditures of the period under audit.
- (f) Ensure that the audits required by the Regulation are properly performed and submitted when due (see section G).
- (g) Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan.

O. AUDITEE FINDINGS FOLLOW-UP

(a) General. The auditee should be responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee should prepare a summary schedule of prior audit findings. The auditee should also prepare a corrective action plan for current year audit findings. The summary schedule of prior audit findings and the corrective action plan should include the reference numbers the auditor assigns to audit findings. Since the summary schedule may include audit findings from multiple years, it should include the fiscal year in which the finding initially occurred.

(b) Summary schedule of prior audit findings. The summary schedule of prior audit findings should report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to DOE awards. The summary schedule should also include audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected in accordance with paragraph (b)(1) of this section, or no longer valid or not warranting further action in accordance with paragraph (b)(4) of this section.

(1) When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.

(2) When audit findings were not corrected or were only partially corrected, the summary schedule should describe the planned corrective action as well as any partial corrective action taken.

(3) When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in DOE's management decision (see section P), the summary schedule should provide an explanation.

(4) When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position should be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:

- (i) Two years have passed since the audit report in which the finding occurred was submitted;
- (ii) DOE is not currently following up with the auditee on the audit finding; and
- (iii) A management decision was not issued.

(c) Corrective action plan. At the completion of the audit, the auditee should prepare a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan should provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan should include an explanation and specific reasons.

P. MANAGEMENT DECISION

(a) General. The DOE is responsible for management decisions related to direct awards. The management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. Prior to issuing the management decision, DOE may request additional information or documentation from the auditee, including a request for auditor assurance related to the documentation, as a way of mitigating disallowed costs. The management decision should describe any appeal process available to the auditee.

(b) Time requirements. The entity responsible for making the management decision shall do so within six months of receipt of the audit report. Corrective action should be initiated within six months after receipt of the audit report and should proceed as rapidly as possible.

(c) Reference numbers. Management decisions shall include the reference numbers the auditor assigned to each audit finding.

~~Q. SCOPE OF AUDIT~~ FURTHER GUIDANCE ON AUDITOR RESPONSIBILITIES

Auditors must conduct the compliance audit in accordance with GAAS, including SAS 117, and GAGAS. If audited financial statements are available, for-profit recipients should submit audited financial statements to DOE as a part of the compliance Regulation 10 CFR 600.316 audit. (If the recipient is a subsidiary for which separate financial statements are not available, the recipient may submit the financial statements of the consolidated group.)

In the event the recipient is not a domestic entity and the audit is performed in a foreign jurisdiction, auditors may perform the audit in accordance with the auditing standards applicable in the foreign jurisdiction. Auditors must disclose in the audit report which auditing standards were used.

The compliance Regulation 10 CFR 600.316 audit and related reporting will generally follow the requirements as set forth in this audit guidance.

(a) Internal control systems.

(1) In addition to the requirements of GAGAS, the auditor shall perform procedures to obtain an understanding of internal control over compliance with DOE awards sufficient to plan the audit to support a low assessed level of control risk.

(2) The auditor shall:

(i) Hold discussions, read documentation and observe the recipient's internal control systems.

(ii) Document the internal control systems and identify key controls.

(iii) Assess the system for reasonableness. When internal controls over some or all of the compliance requirements for an award or cluster of awards are likely to be ineffective in preventing or detecting material events of noncompliance, the planning and performing of testing are not required. However, the auditor should assess control risk at the maximum and consider whether additional substantive tests are required because of ineffective internal control. The auditor also should report a significant deficiency or a material weakness in internal control over compliance as part of the audit findings.

(iv) Plan the testing of internal controls to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each award (or cluster of awards).

(v) Perform testing of the internal control systems.

(vi) Assess the functionality of the internal control system. When internal controls over some or all of the compliance requirements for an award or cluster of awards are not functioning as intended and likely to be ineffective in preventing or detecting material events of noncompliance, the auditor should assess control risk at the

maximum and consider whether additional substantive tests are required because of ineffective internal control. The auditor also should report a significant deficiency or a material weakness in internal control as part of the audit findings.

~~(3) When internal controls over some or all of the compliance requirements for an award or cluster of awards are likely to be ineffective in preventing or detecting noncompliance, the planning and performing of testing described in paragraph (a)(2) of this section are not required for those compliance requirements. However, the auditor should assess control risk at the maximum and consider whether any additional compliance tests are required because of ineffective internal control. The auditor also should report a significant deficiency or a material weakness in internal control over compliance as part of the audit findings.~~

(b) Compliance with Laws, Regulations and Other Agreements.

(1) In addition to the requirements of GAGAS, the auditor shall determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect on each of its awards or cluster of awards.

(c) Substantive Testing of Costs and Receipts.

(1) The principal compliance requirements applicable to the DOE awards subject to audit in this Audit Program are identified in Part II of this Audit Program. An audit of these requirements will meet the requirements of the Regulation.

(2) The tests of costs and receipts (the net of which is the expenditures amount) shall include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient evidence to support an opinion on the recipient's representation that the net expenditures amount reflects the results of the DOE Award in financial terms for each DOE award or cluster of awards required to be audited, within the limitations imposed by the concept of materiality.

(d) Audit follow-up. The auditor shall follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee, and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding. The auditor shall perform audit follow-up procedures regardless of whether a prior audit finding relates to an award or cluster of awards in the current year.

R. AUDIT REPORTING

The reporting package submitted to DOE should include:

- Audited financial statements of the entity (if available).
- The auditor's opinion on the financial statements (if available).
- A schedule of DOE awards (arranged by CFDA number) that includes the CFDA number, the DOE award number, and expenditures of the period under audit.

- A report on internal control over compliance related to major awards or cluster of awards. This report shall describe the scope of testing of internal control and the results of the tests, and, where applicable, refer to the separate schedule of findings and questioned costs described below. The auditor's report(s) shall state that the audit was conducted in accordance with *U.S. Department of Energy Audit Guidance: For-Profit Recipients* and GAGAS and include an opinion (or a disclaimer of opinion) as to whether the recipient has an internal control structure that provides reasonable assurance that it is managing Federal awards in compliance with Federal laws and regulations and the terms and conditions of the awards.
- A report on compliance with laws, regulations, and the provisions of contracts or grant agreements. This report shall state or reference the dollar amount of DOE Federal expenditures examined, disclose the materiality threshold decided upon by the auditor, and, where applicable, refer to the separate schedule of findings and questioned costs described below. The auditor's report(s) shall state that the audit was conducted in accordance with *U.S. Department of Energy Audit Guidance: For-Profit Recipients* and GAGAS and include an opinion (or a disclaimer of opinion) as to whether the recipient has complied with laws, regulations, and award terms that may have a direct and material effect on DOE Federal Awards.
- A schedule of findings and questioned costs which shall include the following two components¹:
 - (1) A summary of the auditor's results which shall include:
 - (i) Where applicable, a statement that significant deficiencies or material weaknesses in internal control over awards or cluster of awards were disclosed by the audit;
 - (ii) An identification of DOE awards or cluster of awards audited;
 - (iii) The type of report the auditor issued on compliance for each award or cluster of awards audited (i.e., unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);
 - (iv) A statement as to whether the audit disclosed any audit findings which the auditor is required to report.
 - (2) Findings and questioned costs for DOE awards or clusters of awards which shall include audit findings as defined in the following section. Audit findings (e.g., internal control findings, compliance findings, questioned costs, or fraud) which relate to the same issue should be presented as a single audit finding.
- A corrective action plan for each audit finding.

S. AUDIT FINDINGS

- (a) Audit findings reported. The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

¹ Although not directly applicable, chapter 13, *Reporting Requirements and Communication Considerations*, of the AICPA Audit Guide *Government Auditing Standards and Circular A-133 Audits*, provides useful guidance for the preparation of this schedule.

(1) Significant deficiencies or material weaknesses in internal control over awards or cluster of awards. The auditor's determination of whether a deficiency in internal control is a significant deficiency for the purpose of reporting an audit finding is in relation to a type of compliance requirement for an award (or cluster of awards) or an audit objective identified in the compliance supplement.

(2) Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to an award or cluster of awards. The auditor's determination of whether a noncompliance with the provisions of laws, regulations, contracts, or grant agreements is material for the purpose of reporting an audit finding is in relation to a type of compliance requirement for an award (or cluster of awards) or an audit objective identified in Part II of this guidance.

(3) Known questioned costs which are greater than \$10,000 for a type of compliance requirement for an award or cluster of awards. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor shall also report known questioned costs when likely questioned costs are greater than \$10,000 for a type of compliance requirement for an award or cluster of awards. In reporting questioned costs, the auditor shall include information to provide proper perspective for judging the prevalence and consequences of the questioned costs.

(4) Known questioned costs which are greater than \$10,000 for a DOE award which is not audited as a separate award. Except for audit follow-up, the auditor is not required under the Regulation to perform audit procedures for such an award and therefore normally will not find questioned costs for such an award. However, if the auditor does become aware of questioned costs for a DOE award which is not audited as a separate award (e.g., as part of audit follow-up or other audit procedures) and the known questioned costs are greater than \$10,000, then the auditor shall report this as an audit finding.

(5) The circumstances concerning why the auditor's report on compliance for awards or cluster of awards is other than an unqualified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for DOE awards.

(6) Known fraud affecting a DOE award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for DOE awards. This paragraph does not require the auditor to make an additional reporting when the auditor confirms that the fraud was reported outside of the auditor's reports under the direct reporting requirements of GAGAS.

(7) Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee materially misrepresents the status of any prior audit finding.

(b) Audit finding detail. Audit findings shall be presented in sufficient detail for the auditee to prepare a corrective action plan and take corrective action and for DOE to arrive at a management decision. The following specific information shall be included, as applicable, in audit findings:

- (1) Specific DOE award identification including the CFDA title and number, DOE award number and year. When information, such as the CFDA title and number or DOE award number, is not available, the auditor shall provide the best information available to describe the DOE award.
- (2) The criteria or specific requirement upon which the audit finding is based, including statutory, regulatory, or other citation.
- (3) The condition found, including facts that support the deficiency identified in the audit finding.
- (4) Identification of questioned costs and how they were computed.
- (5) Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as whether the audit findings represent an isolated instance or a systemic problem. Where appropriate, instances identified shall be related to the universe and the number of cases examined and be quantified in terms of dollar value.
- (6) The possible asserted effect to provide sufficient information to the auditee and the DOE to permit them to determine the cause and effect to facilitate prompt and proper corrective action.
- (7) Recommendations to prevent future occurrences of the deficiency identified in the audit finding.
- (8) Views of responsible officials of the auditee when there is disagreement with the audit findings, to the extent practical.

(c) Reference numbers. Each audit finding in the schedule of findings and questioned costs shall include a reference number to allow for easy referencing of the audit findings during follow-up.

T. AUDIT WORKING PAPERS

(a) Retention of working papers. The auditor shall retain working papers and reports for a minimum of three years after the date of issuance of the auditor's report(s) to the auditee. When the auditor is aware that the DOE or auditee is contesting an audit finding, the auditor shall contact the parties contesting the audit finding for guidance prior to destruction of the working papers and reports.

(b) Review of working papers. A partner of the auditing firm (or someone substantially equivalent to a partner) shall review relevant audit working papers and document the review of such working papers.

(c) Access to working papers. Audit working papers shall be made available upon request to DOE or GAO at the completion of the audit, as part of a quality review, to resolve audit findings, or to carry out oversight responsibilities consistent with the purposes of the Regulation. Access to working papers includes the right of DOE or GAO to obtain copies of working papers, as is reasonable and necessary.

U. ENGAGEMENT LETTER

The auditor should prepare a written engagement letter for the audited entity, which clearly sets forth the terms, nature, and limitations of the audit engagement. The engagement letter may include terms and conditions that the auditee and the auditor deem appropriate.